

**CITY OF CHULA VISTA
MINUTES**

HOUSING ADVISORY COMMISSION MEETING

**MONDAY, SEPTEMBER 28, 2009
12:00 P.M.**

**CITY HALL BY CLERK'S OFFICE
EXECUTIVE CONFERENCE ROOM #C103**

CALL TO ORDER/ROLL CALL – 12:03 p.m.

PRESENT: Dina Chavez, Earl Jentz, Margie Reese, Armida Martin Del Campo, Mark Minas, Mauricio Torre

ABSENT: None

STAFF: Amanda Mills, Redevelopment & Housing Manager
Leilani Hines, Principal Project Coordinator
Stacey Kurz, Senior Project Coordinator

GUESTS: Wally Diekman, Chelsea Investment Corporation

1. APPROVAL OF MINUTES

January 28, 2009

Vice chair Minas made a motion to approve the minutes. Member Chavez seconds the motion. All members agreed unanimously to approve the motion.

2. THE LANDINGS PHASE II

Staff Kurz provided a brief synopsis of the revised application that Chelsea Investment Corporation has submitted for development of Phase II of The Landings, located in Otay Ranch. The item was originally heard by HAC on January 28, 2009, when it was recommended that council approve a pre-commitment of \$2.4M of HOME Investment Partnership funds to finance the project. Since that time the project has had difficulty securing additional funding due to the changing economy.

Staff Hines provided a summary of the staff report regarding the financing requirements for Phase II of "The Landings" to be converted to 143 low-income rental units, reference attached handout. The applicant is requesting an additional \$2M to be provided by the Eastlake Co. as payment of an inclusionary obligation and a loan of \$4M in Redevelopment Agency low- & moderate-income housing funds. The \$4M would be hard loan and the Agency would receive payments over time to put back into another project in the future.

Staff Mills indicated that no other projects are on the horizon, nor will likely be for a few years due to the economy.

Mr. Diekman explained that Phase I was completed approximately 8 months ago and is a rental community consisting of 3 bedroom apartments with 2 car garages. Since lease-up only one unit has turned over. Phase II would consist of another 143 units and one building would be ADA compliant, allowing 8 accessible units. Phase II financing would likely close in March 2010 and construction would take approximately 17 months, with the most move-ins approximately 10 months after finance closing.

Member Jentz asked if construction costs have decreased since The Landings I was built and If this was reflected in the pro forma. Mr. Diekman indicated that construction costs have decreased but since tax credits are only approved on construction costs, affordable housing developers include the costs of entitlement and other expenses in the construction costs rather than land acquisition.

Member Jentz asked for whether a cost per square foot was available and Mr. Diekman indicated that he did not have that on hand. Member Jentz followed with asking about the financial gap caused by the decrease in tax credit pricing. Staff Mills provided an explanation of tax credits, indicating that the federal government issues tax credits to affordable housing projects that can be purchased by lending institutions when they want to show a “loss” in revenue. In the past few years, tax credits were being purchased for as much as \$0.98 per \$1.00, however today they are selling for as little as \$0.60 to \$.70 per \$1.00. Mr. Diekman followed by saying that the largest purchasers of credits in the past were large banking institutions such as Bank of America, Citibank, Fannie Mae and Freddie Mac and due to the financial crisis they are purchasing less, if at all. He concluded by saying that for The Landings II the financing gap caused by this change amounts to approximately \$6M.

Member Jentz asked for an explanation on the low- & moderate-income fund balance. Staff Hines indicated that there is approximately \$10M in the fund currently, this project would take \$4M, and with the State ERAF (Education ...Fund) take-away due to budgetary issues, we anticipate another \$3M being paid to the State, leaving us with approximately \$3M. Every year another approximate \$2M is added, therefore within a few years we would theoretically have enough funds to put into another project.

Vice Chair Minas made a motion to recommend that Council approve the funding request for Phase II of “The Landings”. Member Martin del Campo seconds the motion. All members agreed unanimously to approve the motion.

3. STAFF REPORTS

Staff Kurz provided an update on the following projects/programs:

- ❖ Los Vecinos – The project was awarded LEED Platinum status, which is the highest energy efficiency award possible and is the only LEED Platinum residential building in the County.
- ❖ Neighborhood Stabilization Funds – HUD notified the City that the NSP Plan was approved on January 13th. Staff is moving forward to develop the guidelines for the downpayment program and scheduling a series of educational classes. The NOFA is also being developed for the \$1M in funds to create permanent rental housing for very low-income residents. The Commission will likely see more in the future on the NOFA project.
- ❖ Homeless Prevention & Rapid Re-Housing Program (HPRP) -
- ❖ Balanced Communities Working Group – Over the past few months, staff has been working internally to draft the ordinances and policies that would make up the Affordable Housing package that will be brought before the stakeholders group in the near future, with this item returning to HAC in the next few months.

4. MEMBER’S COMMENTS

Chair Reese requested that the attorney’s office come to speak about conflict of interest issues.

5. ORAL COMMUNICATIONS

No oral communications.

6. ADJOURNMENT – Meeting was adjourned at 4:30 p.m.

Recorder, Stacey Kurz

Attachments:

1. Staff Report for #2

A REPORT TO THE HOUSING ADVISORY COMMISSION

Item No. 2

Staff: Amanda Mills
Housing Manager

DATE: January 26, 2009

SUBJECT: **THE LANDINGS RENTAL HOUSING PROJECT-** RECOMMENDATION OF APPROVAL TO THE CITY COUNCIL TO CONDITIONALLY APPROVE FINANCIAL ASSISTANCE FROM THE HOME INVESTMENT PARTNERSHIP (HOME) PROGRAM IN AN AMOUNT NOT-TO-EXCEED \$2,400,000 TO CHELSEA INVESTMENT CORPORATION FOR THE DEVELOPMENT OF A 147 UNIT PROJECT FOR LOW INCOME HOUSEHOLDS, THE LANDINGS AT WINDING WALK-PHASE II, IN OTAY RANCH VILLAGE ELEVEN

RECOMMENDATION

That the Housing Advisory Commission recommend APPROVAL to the City Council to provide up to a maximum of \$2,400,000 in financial assistance from the City's HOME Investment Partnership Funds to Chelsea Investment Corporation for the financing of a proposed 147 unit affordable housing project located on the corner of Discovery Falls Road and Crossroads Street in Otay Ranch Village 11 in Chula Vista.

BACKGROUND

Under the Balanced Communities Policy of the City's General Plan Housing Element, Brookfield Shea Otay, LLC (master developer) has an affordable housing obligation to provide 207 total affordable units (92 low income and 115 moderate income) within the Winding Walk community. The 92 unit low income housing obligation has been satisfied with the completion of The Landings affordable apartments by Chelsea Investment Corporation (CIC).

With the current economic climate and difficulty in obtaining financing, the master developer is proposing satisfaction of its moderate income obligation through the development of a second phase of low income housing, The Landings Phase II. Staff recommends providing a pre-commitment of \$2,400,000 from its federal HOME Investment Partnership Program (HOME) funds to assist CIC in obtaining affordable housing financing.

PROJECT DESCRIPTION

Under the City's Balanced Communities Affordable Housing Program, the master developer of Otay Ranch Village 11 (aka Winding Walk) has an obligation to provide a total of 207 affordable units: 92 low income and 115 moderate income. The master developer identified Neighborhood R-19 to be developed with a total of 239 units to satisfy both the low and moderate income housing obligations.

CIC was selected by the master developer to satisfy its obligation of 92 low income units. CIC has completed construction of a 92 unit affordable rental community, known as The Landings. It opened in November 2008.

Pursuant to the existing Affordable Housing Agreement, the master developer was to satisfy the moderate income housing obligation through the development of a first time homebuyer project, with 115 as moderate income units and 32 as market rate/unrestricted units. The Agreement provides flexible language to allow lease/purchase of the units should there be difficulty in selling the units.

Under the current economic climate, financing is limited and difficult to obtain for both construction of developments and individuals purchasing homes. With financing so difficult, a for-sale project is infeasible for moderate income households. Financing remains available for development of rental housing opportunities for lower income households.

The master developer is now proposing rental housing to satisfy the balance of their affordable housing obligation based upon the increasing difficulty in developing and implementing successful homeownership opportunities for moderate income households in Chula Vista and throughout the region. Given the success of The Landings, the master developer has selected CIC to pursue a second phase of The Landings which will provide additional rental housing for low income households on the remaining affordable site.

FINANCIAL ASSISTANCE

Financing continues to be available for rental housing for lower-income households through the Low Income Housing Tax Credit Program and Tax Exempt Multi-Family Revenue Bonds. CIC is in the process of securing such financing for the project and is requesting consideration of financial assistance from the City. CIC has proposed Tax Exempt Multi-Family Revenue Bonds, Low Income Housing Tax Credit financing, and a permanent loan to support the majority of the estimated \$46.7 million (\$318,164 per unit) cost of constructing the project (see table below).

With rents restricted at very low and low income levels, the net operating income is insufficient to support a loan large enough to cover all the project costs. There remains a financing gap of approximately \$14 million.

It is proposed that the remaining financing gap will be met by a combination of deferred master developer land/contractor fees, deferred developer fee and City assistance. To close the financing gap, CIC has requested direct financial assistance of \$4.4 million.

During such a difficult time to secure financing, staff is supportive of providing CIC's The Landings II with a pre-commitment of HOME funds. Due to time restrictions on HOME funds, the City is only able to identify \$2.4 million available for this project. The leveraging of local dollars is necessary to obtain the critical bond/tax credit financing for the project. As proposed, the project would be able to leverage \$18 in private investment for each \$1 of our local resources. However, there remains a \$2 million gap even with the City's participation.

With an obligation to provide only 115 moderate income units, The Landings II will provide a surplus of 32 units. These surplus units could be used as a potential source of additional funding by making these surplus units available as "affordable housing credits". Other developers could provide financial assistance in exchange for the use of such credits to satisfy their respective affordable housing obligations.

The Eastlake Company (Eastlake) recently entered into an agreement with the City to provide 25 additional low income affordable units as a result of a 494 residential unit increase from the 2006 SPA plan amendment. Since Eastlake no longer owns residential land to provide these affordable units, the agreement offers alternative options to provide off-site affordable units in eastern Chula Vista. Eastlake has expressed their willingness to provide the remaining \$2 million financing gap for The Landings II in exchange for receiving the affordable housing credits towards their own obligation. The use of the credits would complete the financing necessary for The Landings II and provide Eastlake with a flexible option for meeting their obligations.

PROFORMA SUBSIDY ANALYSIS

	Cost	Funds	Financing Gap
Project Cost			
Land Purchase	\$5,001		
Construction	\$31,190,470		
Contingency	\$500,000		
Permits & Fees	\$7,208,033		
Interest/Fees, Financing Costs	\$2,810,408		
Design/Engineering	\$1,300,000		
Developer Fees	\$2,500,000		
Reserves, Legal, Other	\$1,256,158		
Sources of Funds			
Tax Credit Equity		\$16,332,000	
Tax Exempt Bonds-Permanent Loan		\$15,677,000	
Subordinate Bond		\$1,000,000	
Subtotal	\$ 46,770,070	\$ 33,009,000	\$ 13,761,070
Subsidies			
City Loan		\$2,400,000	
Eastlake Co - Aff Hsg Credits		\$2,000,000	
Deferred Contractor Fee		\$7,300,000	
Deferred Developer Fee		\$2,061,070	
TOTAL	\$ 46,770,070	\$ 46,770,070	\$ -
Cost per Unit @ 147 Units)		\$	318,164

Income and Rent Restrictions

Per the Affordable Housing Agreement for the inclusionary obligation, 115 units must be affordable for moderate income households. Because of the financing Chelsea is pursuing, the entire project will provide rents even lower. The number of units actually restricted by the Affordable Housing Agreement will be 147 low income. Income and rent restrictions for The Landings will be maintained for 55 years.

Unit Description	No. of Units	Target Income Group % of AMI	Annual Income (4 Persons)	Inclusionary Housing Monthly Rents (Moderate)	Proposed Monthly Rents (Lower)
3 Bd/2 Ba	29	50%	\$ 39,500	\$ 2,052	\$ 966
3 Bd/2 Ba	117	60%	\$ 47,400	\$ 2,052	\$ 1,172
MGR	1	N/A	N/A	N/A	N/A
Total Restricted	147				

The income and rent restrictions outlined above are to be incorporated into the various deed restrictions for The Landings. Compliance with these restrictions will be subject annually to regulatory audit and annual tax credit certification. The developer has successfully managed low income housing units for 20 years. Compliance with strict property management policies and procedures will ensure that income and rent restrictions will be maintained for the full 55-year compliance period, and will bind all subsequent owners of The Landings, so that the commitment remains in force regardless of ownership.

Form of Assistance

Assistance will be in the form of a loan from the City's HOME funds and secured by a note and deed of trust recorded against the property. The principal and interest on the loan will be amortized over fifty-five years and repaid from cash surplus in annual installments. Terms of the loan will be further negotiated and all related loan documents will be presented to the City for approval at a later date.